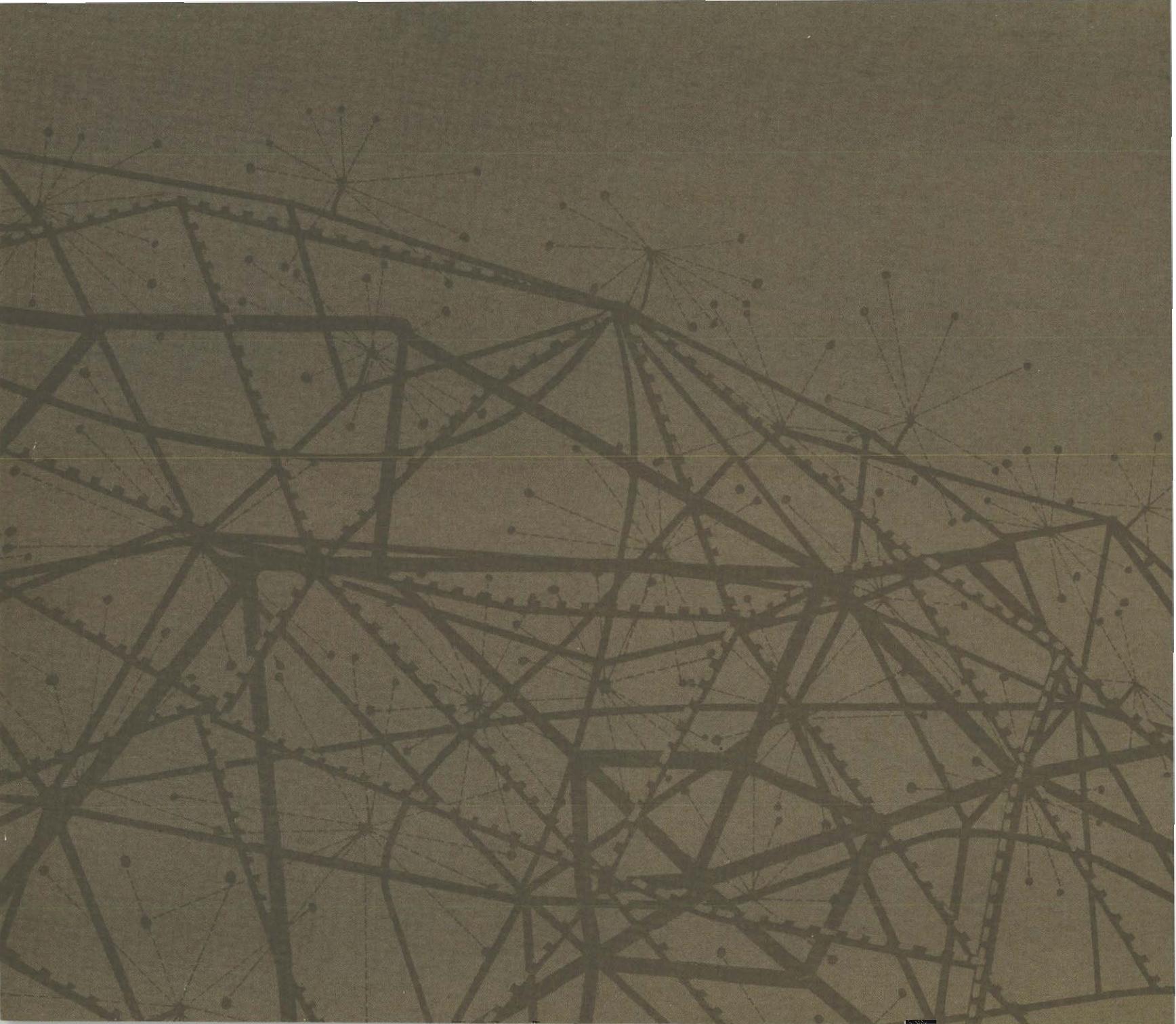


Design for leadership



ANNUAL REPORT
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The Annual Meeting of share owners will be held at 2 p.m. on April 16, 1969 at the Civic Center Auditorium, Atlanta, Georgia.

Design for leadership

The cover symbolizes the Bell System's nationwide network, a great national resource for communicating all kinds of information on the instant, anytime, anywhere. How Bell System people, organization and dynamic technology are working to constantly increase the value and uses of this unmatched network, sometimes called "the world's largest computer," is told in pictures beginning on page 9.

Annual reports of all the Bell telephone companies and of Western Electric, manufacturing and supply unit of the Bell System, are available on request. Share owners who are blind may obtain the AT&T report in braille or on talking records. Kindly address requests to the Secretary.

American Telephone and Telegraph Company
195 Broadway, New York, N.Y. 10007
Telephone: (212) 393-9800

The Company maintains stock transfer offices at the address above and also at
185 Franklin St., Boston, Mass. 02107;
225 West Randolph St., Chicago, Ill. 60606; and
140 New Montgomery St., San Francisco, Calif. 94105

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VICE PRESIDENT AND COMPTROLLER
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VICE PRESIDENT AND TREASURER
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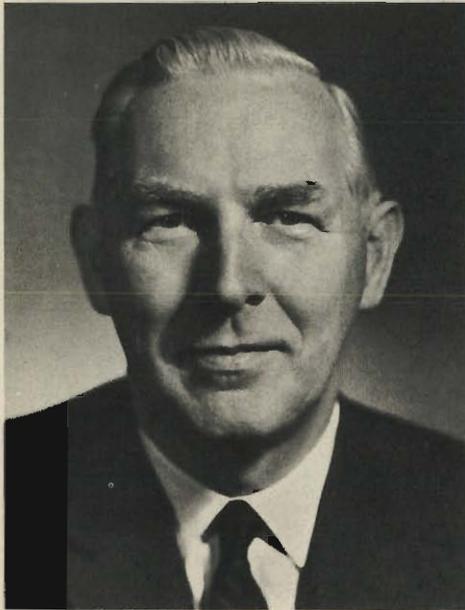
VICE PRESIDENT AND SECRETARY
Charles E. Wampler

BELL SYSTEM RESULTS IN BRIEF

	1968	1967
Operating revenues and other income	\$14,415,000,000	\$13,284,000,000
Operating expenses	\$ 8,442,000,000	\$ 7,816,000,000
Operating taxes	\$ 3,300,000,000	\$ 2,876,000,000
Interest deductions	\$ 560,000,000	\$ 481,000,000
Net income applicable to AT&T shares	\$ 2,052,000,000	\$ 2,049,000,000
Earnings per AT&T share	\$3.75	\$3.79
Dividends paid per share	\$2.40	\$2.20
Average number of shares outstanding	546,688,000	540,312,000
AT&T share owners*	3,142,100	3,110,100
Construction expenditures	\$4,742,000,000	\$ 4,310,000,000
Telephones*	88,007,000	83,762,000
Equipped for direct distance dialing	93%	91%
Average daily conversations		
Local	304,838,000	290,739,000
Long distance	17,826,000	16,134,000
Overseas conversations (Total for year)	15,200,000	12,332,000
Employees*		
Telephone companies	679,100	656,300
Western Electric	177,000	169,700
Bell Telephone Laboratories	15,900	15,200

*End of year

REPORT OF THE CHAIRMAN



Dear Share Owner:

We have had a year of great growth and generally good results in the Bell System—notwithstanding rising wage costs, increased Federal and other taxes, high interest rates on the new capital needed and, especially in some areas, the problem of “catching up” on service backlogs caused by strikes.

The salient fact about our business is that in today's world both *need* and *ability* to convey information in any form are rapidly increasing. This is the age of communications and we are at the heart of it. Hence the nationwide network, which now serves

nearly 110 million Bell and Independent company telephones, data sets, and other devices, continues to grow and is more and more used.

In 1968 we handled 16 million more messages per business day than in 1967. Long distance messages increased by 620 million. The gain of 4,245,000 telephones was the largest ever. The *growth* in overseas calls exceeded the *total* of ten years ago. Data-Phone® sets in service increased 50 per cent to about 85,000.

New ground rules that facilitate connection of customer-owned devices and systems to the Bell System's exchange and long distance network have become effective in recent months. Simple and inexpensive connecting arrangements have been carefully designed to assure continuing good service to all users. This is essential.

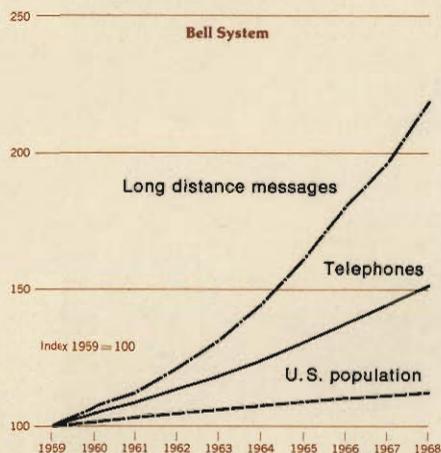
Since customers now have more options in using the network, this should further increase usage and enhance the growth of our business. Competition in providing communications equipment that may be connected to the network will no doubt accelerate, but we are confident of our ability to meet the tests of the market. In the expanding structure of communications there is opportunity for all.

Earnings, financing, taxes, wages

Although Bell System earnings per share last year were 4 cents below 1967, this was after the 10 per cent Federal income tax surcharge in 1968 which amounted to 32 cents a share. The rate of return on capital, also reflecting the tax surcharge, was 7.50 per cent compared with 7.77 per cent in 1967.

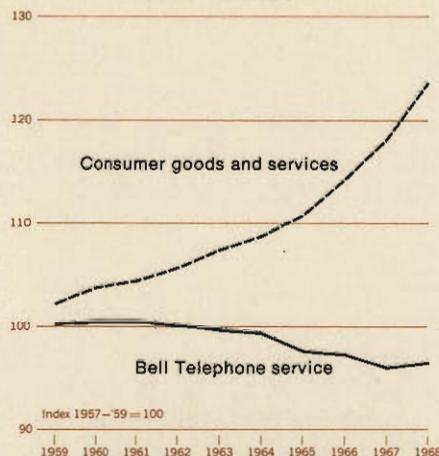
To help finance construction the Bell companies obtained more than \$1½ billion of new capital through bond issues, bank borrowings, sale of commercial paper and, in relatively small amount, purchase of AT&T shares by employees under the employees' stock plan which has now been concluded. The average interest cost of debt issues sold last year was 6.61 per cent and the average cost of all long-

GROWTH OF SERVICE



Since 1959, while population has increased 13 per cent, telephones have increased over 50 per cent and long distance messages have more than doubled.

PRICE TRENDS



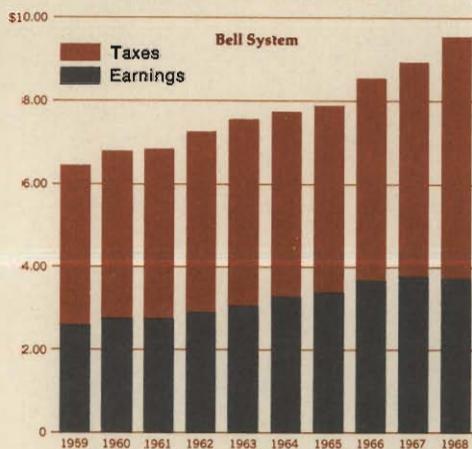
As consumer prices generally have risen, overall costs to telephone users (taking local and long distance together) have gone down. However, rising costs of providing service now require increases in telephone rates.

term Bell System debt outstanding rose from 4.24 per cent to 4.46 per cent. At the end of the year the proportion of debt in total capital was 36.4 per cent. If conditions permit, we shall continue to use debt financing until the debt ratio reaches about 40 per cent, at which time we shall re-examine our objectives.

Federal, state and local taxes all increased in 1968. They totaled \$3.3 billion or nearly 15 per cent over 1967. This was equal to about \$6 per share of AT&T stock. In addition, customers paid more than \$1.2 billion in Federal and other excise taxes. All told, taxes on Bell System service amounted to \$4.39 a month per telephone.

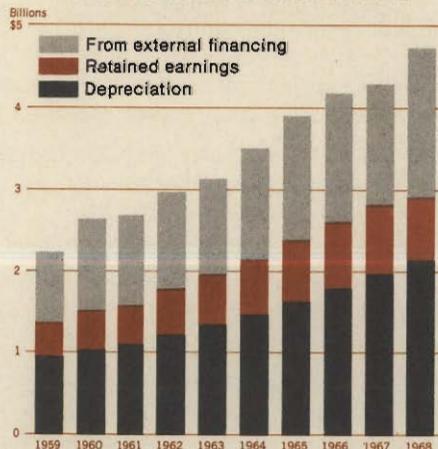
New contracts with the unions, most of them for three-year periods, provided for increases in wages and benefits that come to about 6½ per cent annually. These agreements were reached after work stoppages lasting from 18 days to five months. The cost was high but not above the levels previously arrived at in other major industries, and was necessary to enable the Bell System to continue to attract capable employees in competition with other companies.

EARNINGS AND TAXES PER SHARE OF AT&T STOCK



Earnings per share after taxes have increased 44 per cent since 1959. Taxes have increased more than 50 per cent, from below \$4 a share to nearly \$6 a share.

SOURCES OF FUNDS FOR CONSTRUCTION EXPENDITURES



Three-fifths of the money needed comes from internal sources—depreciation accruals and also, importantly, retained earnings. Each year, however, large sums obtained through external financing are also required.

Applications for increased rates

Over the years we have had great success in holding down the price of communications service through steady improvement in technology and operating methods. This unflagging effort was never more productive than it is today. Nevertheless there are times—and now is one of them—when technological advance and increasing efficiency cannot, by themselves, offset the inflationary pace of rising costs. In numerous areas, therefore, moderate increases in telephone rates have become necessary. Increases have already been authorized by regulatory commissions in a few states, applications are pending in several more states, and other applications will be filed.

We feel strongly that under present conditions Bell System earnings should be in the range of at least 8½ per cent on total capital. Every year, to meet demands for service, \$1½ billion or more must be ob-

tained in the financial markets. We must compete for this money at a time when interest rates are the highest in half a century. Further, we must continuously compete with other businesses for the favor of equity investors—share owners—who in these inflationary times look for growth in earnings and dividends to prevent erosion of their investment.

Under these circumstances, past views of what constitutes a proper rate of return on telephone investment are no longer appropriate. They are out of date. We are therefore urging regulatory approval of earnings at least in the 8½ per cent range to maintain investor confidence and assure the abundance and quality of communications the nation needs.

Steps ahead in service

Strikes last year intensified the problem of meeting all service demands promptly. Nevertheless, supervisory forces and employees not on strike did a great job in maintaining day-to-day service and handling emergencies. Also, work went ahead all through the year to improve the convenience and value of service in numerous ways. For example:

Calling areas in 500 exchanges were enlarged so that millions of messages previously handled as toll calls went through as local calls. Two-thirds of the new dwelling units served during the year were reached by "out-of-sight" wires underground. Optional single-payment plans for premium telephones, and service "packages" at discounted rates, were widely offered. In several areas optional calling plans were also introduced.

Six cities, including New York, adopted the "911" standard emergency number. In New York and in the Washington, D. C. metropolitan area, conversion of several thousand outdoor coin phones to *Dial Tone First* service marked the substantial beginning of a program to change all coin service throughout the nation. This method of operation lets the user know at once that the telephone is ready for his call. It also enables him to make "911" calls, and any call

requiring operator assistance, without first depositing a coin.

Vandalism of public telephones remains a difficult problem and one we are exerting every effort to overcome. Overall, service for business and home telephone users is good and improving. In present experience, for example, a customer may have some out-of-service condition on his line, on the average, only once in nearly five years. This compares with once in four years or so during the 1950s. The record for home service alone is even better—as suggested by a recent advertisement that told of a youngster of 5½ "who has never even seen a telephone repairman."

A few more indicators of progress:

Touch-Tone® pushbutton calling is now being used by nearly 2½ million customers served by 3,600 central offices. More than 150 organizations already use Touch-Tone service for data communications including communication with computers. A trial of improved equipment and techniques for Picturephone® service is now starting. More and more electronic switching systems are going into service. An underground coaxial cable system that can carry 32,400 simultaneous calls is now in operation from Miami to New York and will soon be completed to Boston. A similar system runs from Massachusetts through the Middle West and is to be extended to the West Coast. Future plans include development of a new coaxial cable system that will have a capacity of 90,000 voice channels.

A new transistorized 720-channel ocean cable now reaches from Florida to the Virgin Islands, with connections to Puerto Rico and other points. Service over satellite circuits to Chile and Panama began last summer and fall. We are now using some 1,100 cable and more than 400 satellite circuits (as well as short-wave radio) for overseas service and we expect to use many more of both. Satellite circuits are leased from Comsat, of which we are the largest customer. Service is available to 210 countries and territories—including service to Vietnam at rates that were reduced in December.

Western Electric Company

Western Electric Company sales were \$4,032,000,000 compared with \$3,718,000,000 in 1967. Earnings were 4.8 per cent of sales compared with 4.1 per cent. Sales to the Bell System were \$3,375,000,000. Most of the balance was in sales to the Government, largely representing work performed by Bell Laboratories and numerous subcontractors. Two-thirds of all products Western Electric now makes for the Bell System have been developed in the last ten years. In 1968 Western Electric purchased over \$1.6 billion in goods and services from more than 45,000 suppliers.

At the request of the Department of Defense, Western Electric is serving as prime contractor on the *Sentinel* missile defense system. Fundamental responsibilities accordingly rest on Western Electric and Bell Laboratories but most of the aggregate volume of business will be handled by subcontractors. In other work for the Government, Western Electric's subsidiary, Sandia Corporation, continued its service to the Atomic Energy Commission; Bellcomm, Inc., which we formed some years ago to render systems engineering services requested by the National Aeronautics and Space Administration, made important contributions in support of the magnificent achievements of the Apollo astronauts; and many branches of the Bell System worked cooperatively to extend the Defense Department's *Autovon* network. For this we have installed, among other things, 29 electronic switching centers which are in addition to those serving the general public.

To make the best use of resources...

The Federal Communications Commission's interstate rate proceeding has been mainly concerned in the past year with ratemaking principles and the factors involved in pricing various types of service. We believe prices should be based on market and competitive factors as well as on costs. This is necessary if customers are to have available to them the

service alternatives they may need and want. At the same time, however, we recognize that prices for various types of service should cover the additional costs incurred in providing them.

The key to economy in communications for all is the *shared* use of the nationwide exchange and toll network by millions of people. And it is this common usage of "common carrier" network facilities that accounts for most of our business—about 95 per cent of it. We are confident that our private-line competitive services will continue to meet important public needs, but we are more than ever intent on generating continuous innovation and progress in the shared network services that the telephone companies render without competition in the usual sense, but as a public trust under public regulation.

The rapid expansion of communications skills throughout the world clearly calls for wide competitive opportunity. However, wise public policy in our judgment will make sure that political and regulatory decisions with respect to competition will not impair in any degree the usefulness of the shared network, which constitutes a major national resource. Competition is not an end in itself and mere zeal for competition is no assurance of progress. Facts and performance, not just theory, should determine how resources are developed and used.

Policy views and decisions

Various other matters that reflect public interest in the dynamic role of communications may be touched on briefly:

In response to the FCC's computer-communications inquiry we have made clear that our concern is to provide communications for data processors and not to provide, ourselves, data-processing service to the public. We believe the new connecting arrangements referred to on page 4 will serve data processors well and we are diligently exploring special rate questions involved in data communications.

After extended negotiations we have agreed

to sell to Western Union, subject to regulatory approval, the teletypewriters and certain other equipment used in teletypewriter exchange (TWX) service and to furnish, under contract, intercity lines and switching facilities that Western Union will use in taking responsibility for the service. This agreement is pursuant to a proposal of some time ago that combining TWX with existing Western Union services may be in the public interest. We believe the terms fully safeguard the interests of our share owners, customers and employees. Data-Phone and private-line services are not involved. The Bell System expects to receive about \$80 million for the equipment sold, as well as appropriate continuing compensation for the use of other facilities. Employees now involved with TWX service will be reassigned within the System.

In agreement with the Corporation for Public Broadcasting, established by Congress to further the development of noncommercial broadcasting, we have instituted a six-month trial, at specially reduced rates, of a network that now interconnects 58 cities for educational TV programs during "prime time" evening hours.

With respect to CATV (short for cable or community antenna TV services) it may be well to say again that the Bell companies do not provide such service. We do, however, provide high-quality facilities to CATV concerns for their use in distributing programs; or they may contract with us to attach their distribution lines to telephone company poles.

The future holds great promise

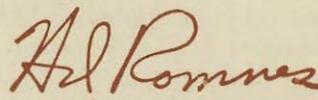
These thoughts briefly in conclusion:

First, the Bell companies are working hard to help meet the critical problems of the cities, especially the problem of improving education and increasing employability among people who need special training. This is touched on again on page 22 but I would like first to emphasize it here.

Second, while considerable public attention today is directed toward communications *problems*, it

seems important also to put a little emphasis on *achievements*. The fact is that this country is endowed beyond all others with tremendous communications resources that innovative people are increasing every day. This holds all kinds of promise for the future.

Finally, it is people who live, work, and invest in the American way of freedom, incentives, venture, and reward, who will effectively realize the promise. We of your Board of Directors and management, I assure you, will continue to do our utmost.



Chairman of the Board

February 19, 1969

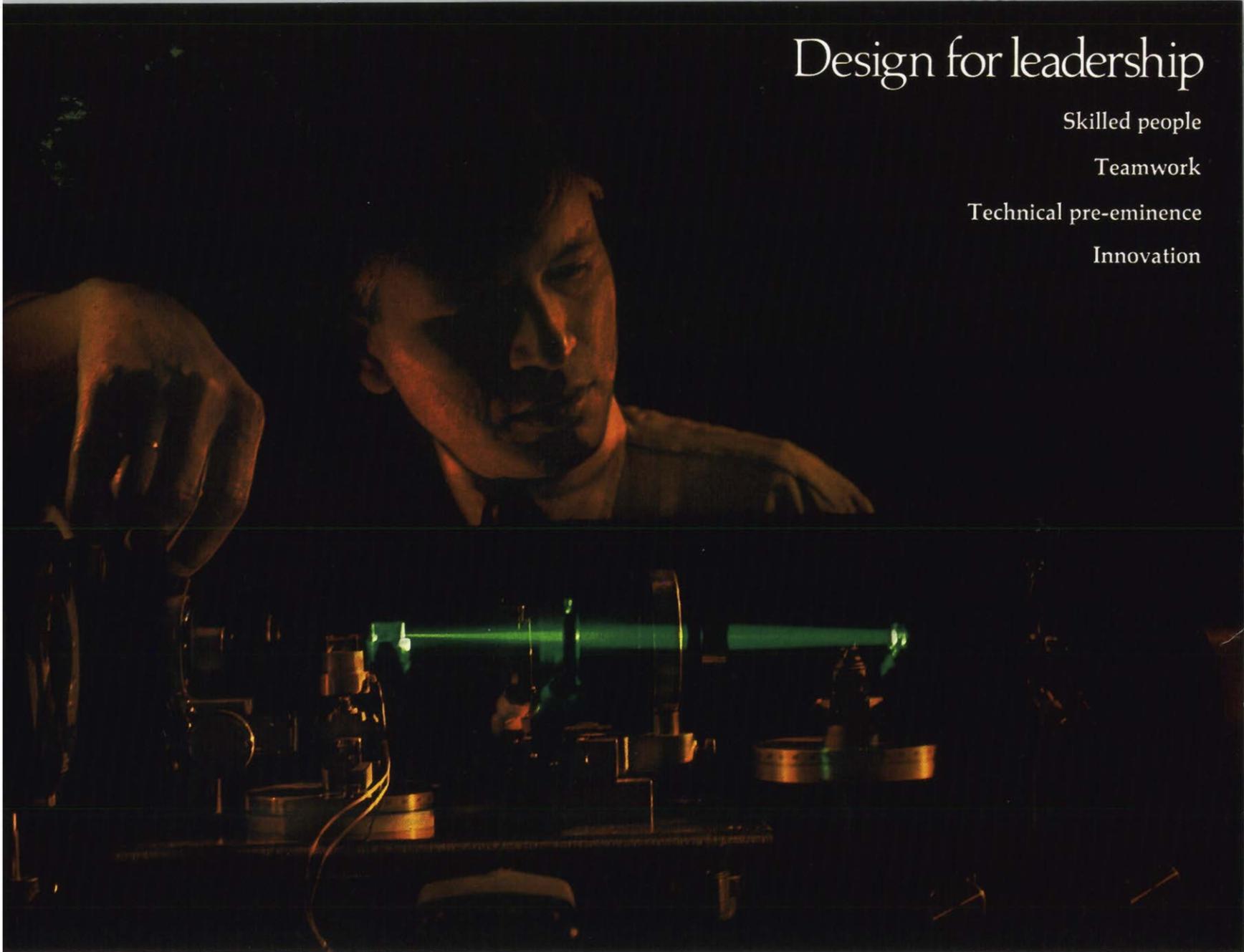
Design for leadership

Skilled people

Teamwork

Technical pre-eminence

Innovation



In laser research, crystals created at Bell Laboratories change an invisible infrared beam of coherent light to a visible green. This ability to change the color (or frequency) of a laser beam to any one of a number

of other frequencies is a significant step toward a future system for carrying information on light waves. It may also be viewed as suggesting how continuous innovation lights the future of communications.



The communications network is alive!

Shifting lights in network management centers show how telephone traffic is flowing as a hurricane strikes the South on October 20, 1968.

Network managers promptly order rearrangements to provide more voice channels where needed and send many calls over alternate routes — thus easing the pressure on switching points where the load is heaviest.

Ordinarily there would not be so many alerting lights aglow. And here they have been emphasized to bring out the action. But at all times, millions of miles of channels interconnecting thousands of switching centers are under close watch... and are adjusted to meet changing demands.

A cross section of tomorrow . . .

Vitality in research and development comes from vital people who have mastered scientific and engineering disciplines.

These scientists and engineers of Bell Laboratories (who represent many colleagues) show a cross section of important work in progress.

In foreground is an experimental model of a new *electronic telephone* that will have even better talking and hearing qualities than any now in use.

A new model *Picturephone*® will be tried out experimentally starting in 1969. As the instrument in the picture shows, this can be used for graphics as well as for face-to-face communications.

The books? Symbols of mathematical and engineering studies to evaluate the best, most economical *transmission systems* to meet specific future needs.

At extreme left and right are two aspects of development and research in transmission—at left, equipment for an experimental system for communicating over very high-frequency radio waves in *underground circular pipes*; and at right, one of many forms of *lasers*, which generate beams of coherent light that may some day carry hundreds of thousands of conversations simultaneously.

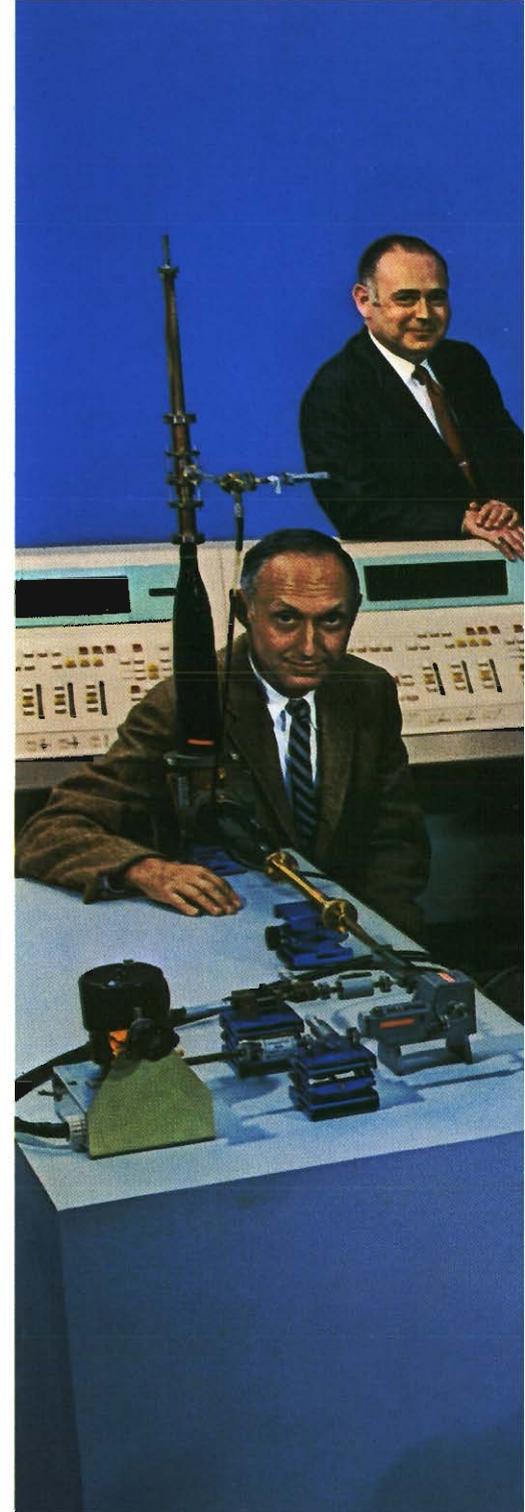
The engineer directly in the center shows a new teletypewriter designed for the computer-oriented *business information system* now being organized to increase the accuracy and efficiency of all Bell System business operations.

His colleague at the left rear stands by an operator console of the new electronic *traffic service position system* (TSPS). As this system is extended it will enable customers in more and more areas to dial all their calls, including person-to-person and collect calls, and also coin telephone and credit card calls, with operator assistance as appropriate.

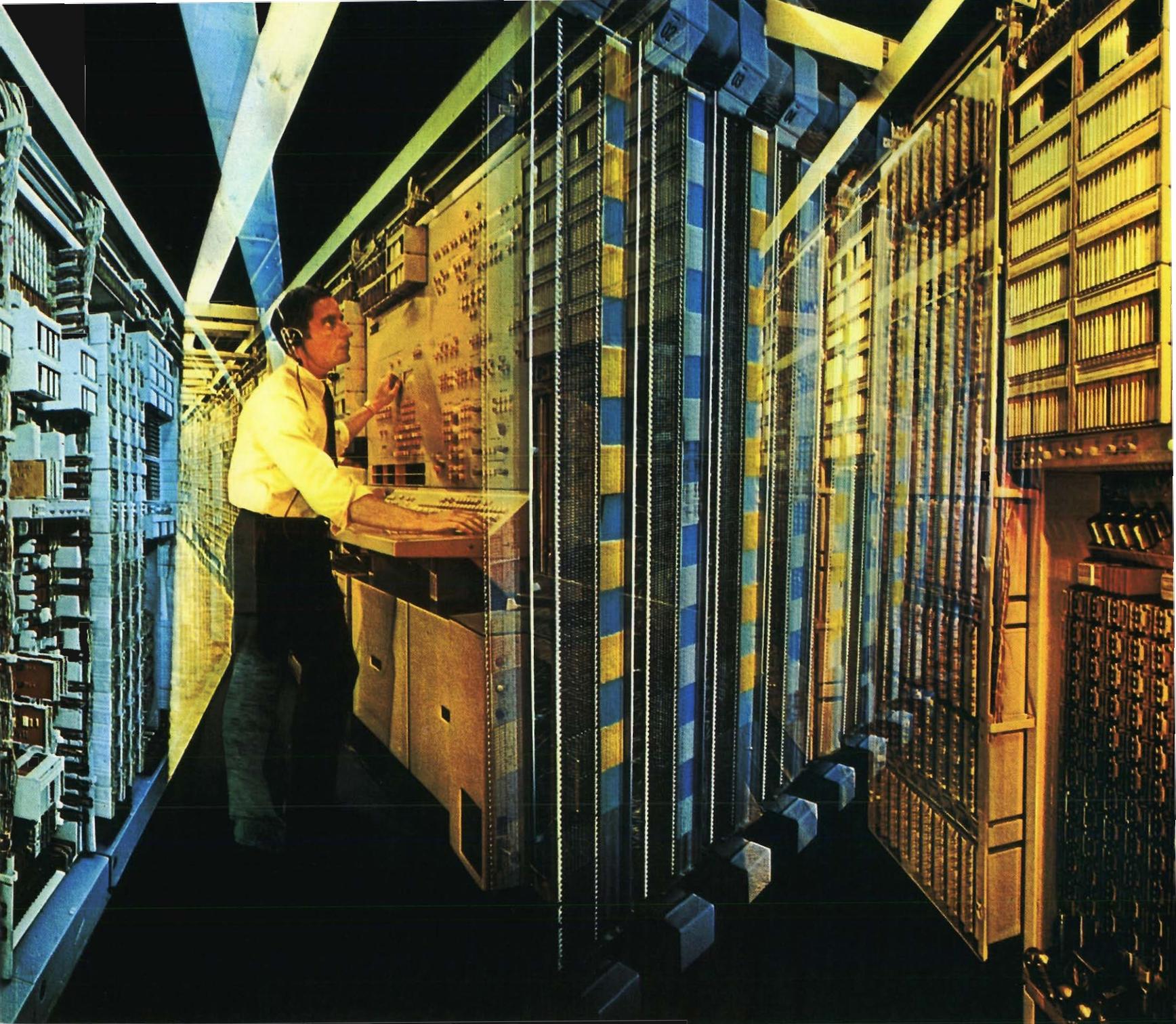
At right rear, a member of the *chemical research* laboratory shows, on the wall, the molecular structure of the tough, light plastic now used to make telephone housings.

Finally, a research scientist in optics shows a three-color *projection device* especially designed to investigate the properties of color mixtures and the rendering of skin tones and hair colors. Such studies look forward—far forward—to problems that must be solved when and if *Picturephone* service is offered in color.

So, in one picture, nine of the 6,500 scientists and engineers of Bell Laboratories help to visualize important aspects of the Bell System's unceasing innovative effort.







Toward greater versatility and value...

Electronic central offices and *digital transmission*—the sending of all kinds of information in coded pulses, as suggested on the right—will steadily increase the versatility and value of the Bell System network.

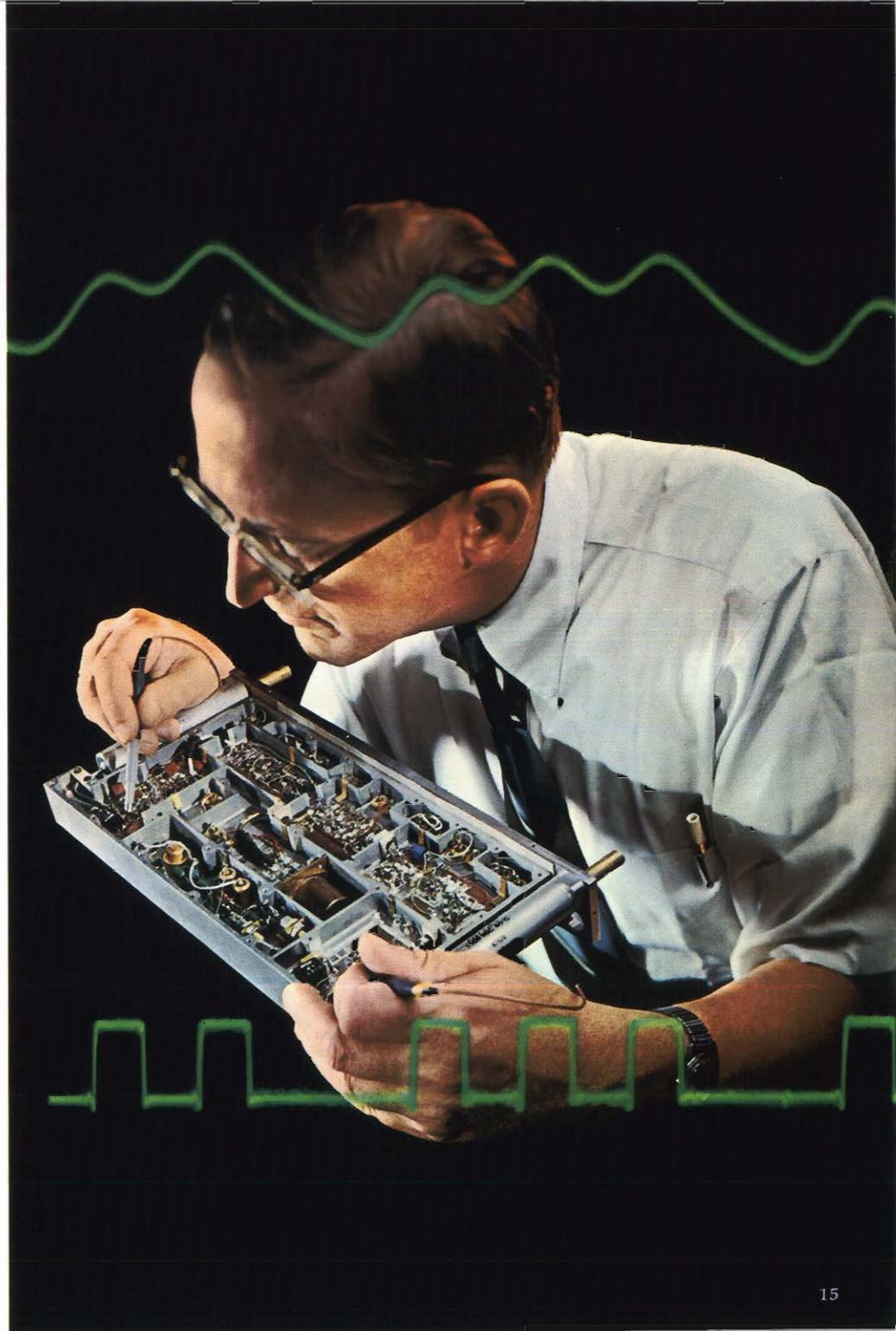
As electronic switching expands, conveniences in service will multiply and costs of maintenance and operation will be reduced. The network *as a whole* will be more capable and dependable and, to an increasing extent, self-adjusting and self-healing.

Pulse transmission systems, as they are extended, will facilitate carrying data at high speeds. They will be important too in helping to make Picturephone service economically feasible and will provide further overall economies in long-distance communications.

Looking at digital transmission and electronic switching together, it is clear that the capabilities of the network are today only at their beginning.

Some 45 electronic switching systems (left) are already in service and the number will exceed 70 by the end of 1969. There is no comparable development anywhere else in the world.

In thousands of pulse transmission systems on short routes today, "repeaters" regenerate diminishing pulses as they come over the line (top) into strong signals (below). The repeater shown is being developed for a high-speed system that a few years hence will be carrying thousands of voice and data communications simultaneously over thousands of miles.



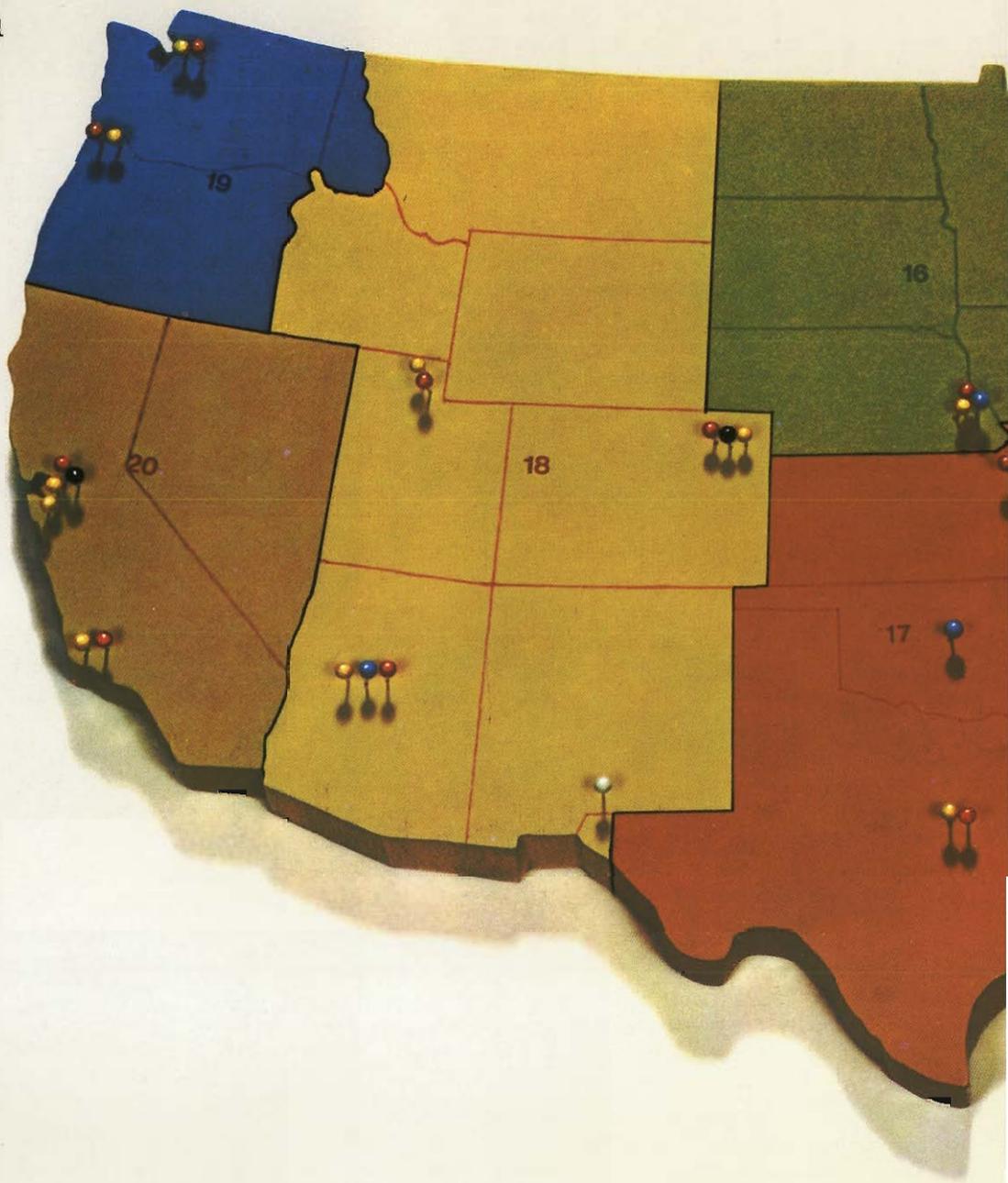
The unified Bell System

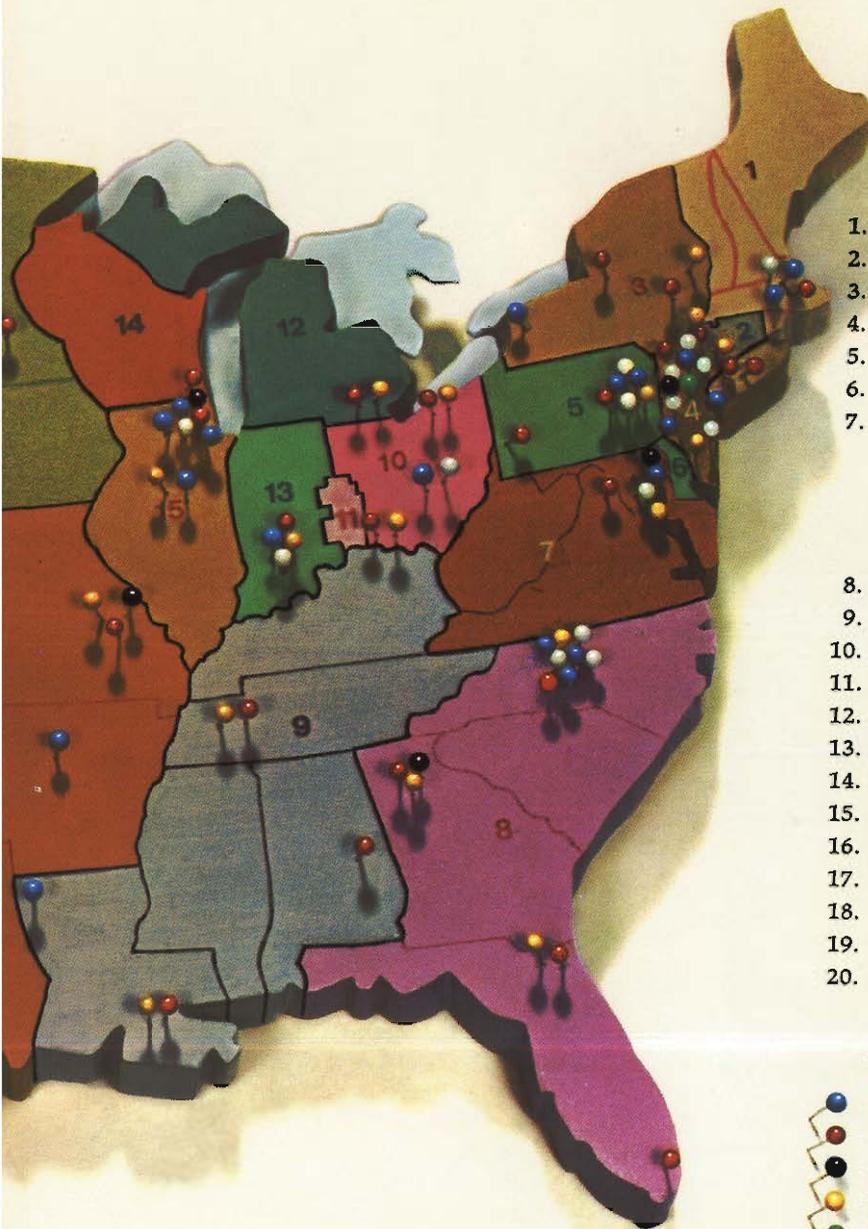
All over the country, the people of the Bell telephone companies, Western Electric, and Bell Laboratories work together to provide superb communications and expand our ability to move information of any kind, anywhere—quickly, dependably, and at low cost.

The Bell System companies named at the right serve the areas shown by number on the map. AT&T owns all the stock of most of them. In five it owns a majority of the shares, as follows: New England, 69.5% ; Illinois, 99.3%; Mountain States, 86.8%; Pacific Northwest, 89.2% ; Pacific 89.7% . The Bell Telephone Company of Nevada is wholly owned by Pacific. In the Southern New England and Cincinnati and Suburban companies, AT&T owns 17.9% and 26.7% of the stock, respectively, and in Bell Canada (not listed at right) it owns 2.1%.

Other telephone companies also operate in nearly all parts of the United States. Bell System lines connect with these and with other telephone systems throughout the world.

AT&T also owns all the stock of Western Electric Company and Western Electric and AT&T jointly own Bell Laboratories. As the map shows, Western Electric facilities and forces are deployed to render most effective manufacturing, distribution, engineering, and equipment installation services to the telephone companies and numerous Bell Laboratories locations are associated with Western Electric plants to help move new technical developments into production with maximum speed.





Bell Telephone Companies

1. New England Telephone & Telegraph Company
2. The Southern New England Telephone Company
3. New York Telephone Company
4. New Jersey Bell Telephone Company
5. The Bell Telephone Company of Pennsylvania
6. The Diamond State Telephone Company
7. The Chesapeake and Potomac Telephone Companies
 - The Chesapeake & Potomac Telephone Company (D.C.)
 - The Chesapeake & Potomac Telephone Company of Maryland
 - The Chesapeake & Potomac Telephone Company of Virginia
 - The Chesapeake & Potomac Telephone Company of West Virginia
8. Southern Bell Telephone & Telegraph Company
9. South Central Bell Telephone Company
10. The Ohio Bell Telephone Company
11. The Cincinnati & Suburban Bell Telephone Company
12. Michigan Bell Telephone Company
13. Indiana Bell Telephone Company
14. Wisconsin Telephone Company
15. Illinois Bell Telephone Company
16. Northwestern Bell Telephone Company
17. Southwestern Bell Telephone Company
18. The Mountain States Telephone & Telegraph Company
19. Pacific Northwest Bell Telephone Company
20. The Pacific Telephone & Telegraph Company
 - Bell Telephone Company of Nevada

Western Electric Company

-  manufacturing locations
-  service centers
-  regional engineering and service locations
-  regional equipment installation centers
-  engineering research center

Bell Laboratories Locations





Down with costs . . .

That is the goal—and the achievement—of hundreds of Western Electric manufacturing engineers. The men pictured are members of groups at seven Western Electric locations who in 1968 completed ten projects that achieved cost savings of \$6 million annually.

The objects in the foreground are indicators of how savings are accomplished—new cable production techniques, changes in making telephone sets, more efficient production of crystals, an improved lower-cost magnet, and better procedures in making diodes, certain

telephone parts, wire connectors, and generating equipment.

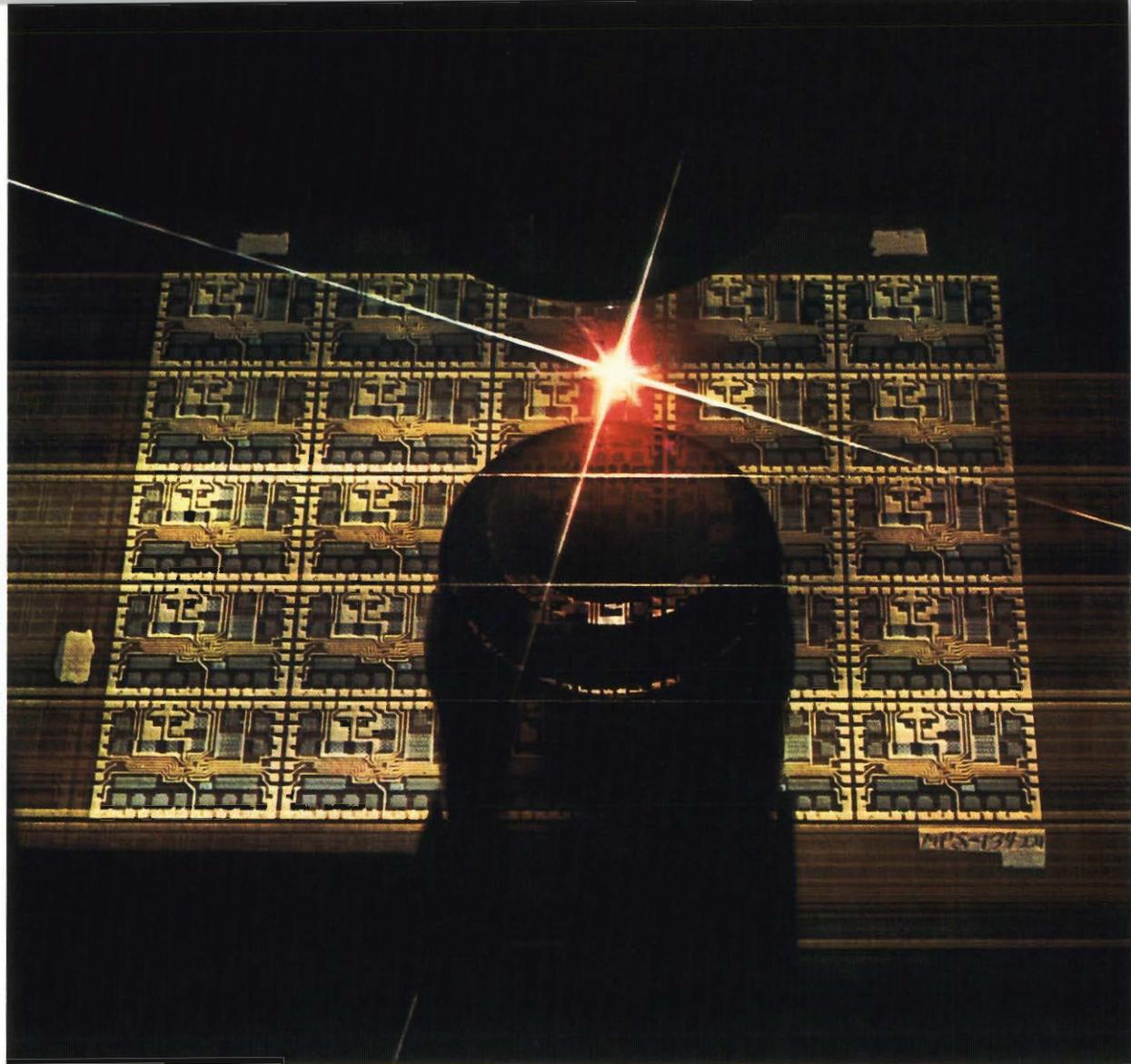
Savings in manufacturing and service costs, as a result of this programmed effort, are currently about \$40 million a year and the annual effect in 1969 of all cost reductions in the past ten years will exceed \$300 million—an important reason why Western Electric prices for equipment it makes for the Bell System are today *below* the 1950 level. This in turn is a major reason why the Bell System network offers outstanding service values that stimulate public demand.

Leading in new arts . . .

The vast increase in capacity of communications systems — with coaxial cables, for example, now able to handle more than 32,000 simultaneous conversations—has flowed from steady improvement of electronic equipment and components, notably transistors.

Today the new art of integrated electronics is yielding even more reliable, more capable, more economical devices. Picturephone service, for example, depends on integrated circuits that contain hundreds of tiny transistors and other elements.

Bell Laboratories and Western Electric, working hand in hand, have learned to mass-produce integrated circuits that combine tiny chips containing silicon transistors and diodes with so-called "thin-film" circuit elements. In the years immediately ahead we shall be using this new resource to redesign, improve, and increase the efficiency and usefulness of the entire communications system.



Invisible infrared beam of laser system devised by Western Electric engineers cuts apart integrated thin-film circuits of tantalum with hairline accuracy.

The laser itself is seen in reflection. Western Electric has pioneered several important manufacturing uses for beams of laser light.



Above, mobile data communications training center crosses Rockies. Below, in trailer "on location," Colorado telephone managers and AT&T data specialists work together.



Data—and people—on the move . . .

The machines opposite are a sampling of the many that now send and receive data over Bell System lines—data to and from cards and tapes, handwriting and other facsimiles, heartbeats, stock quotations, words on paper and on screens. Much of this data goes in and out of computers. The role of communication networks in information-handling of all kinds grows apace.

To help customers make the best use of new data communications services, trained telephone people offer advice and assistance. The "data-on-the-move" trailers shown—containing mobile training centers—have an important part in this. They are also a timely example of Bell System teamwork.

In this instance AT&T data communications training specialists meet with regional telephone managers and employees to help them advise customers to best advantage.

More generally, AT&T advises and assists the regional telephone companies on all sorts of common problems. AT&T also coordinates the service undertakings of the telephone companies with the research, development, design, production and supply functions of Bell Laboratories and Western Electric. This three-way teamwork is basic to Bell System success.





Leadership in providing opportunity . . .

To lead in service requires leading also in citizenship. What happens to the community happens to us—the success of the business depends on the success of the nation in solving acute social problems.

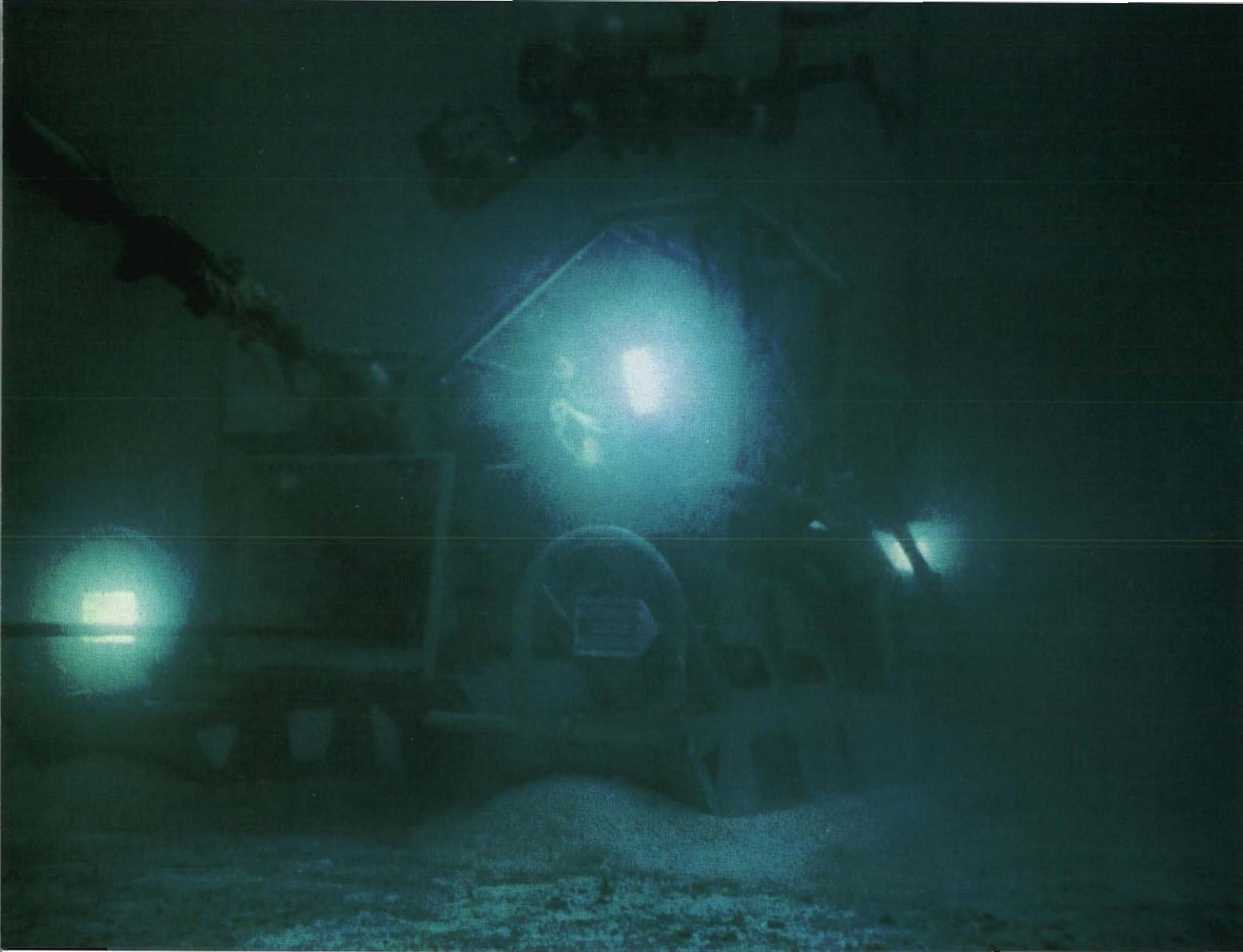
The Bell System has fully accepted responsibility to employ and train several thousand men and women who cannot immediately meet traditional employment standards. Pictured are scenes in a shop organized in Newark, N.J. last year by Western Electric especially to provide jobs for unemployed people who need special training.

Among the telephone companies, also, much is being done to hire and train unemployed men and women who cannot meet conventional employment standards but can develop skills. These programs have had much practical success so far and every effort will be made to maintain good progress.

Toward a better way . . .

In research laboratory as in job shop, Bell System people press their search for better answers. For example, after long effort, Bell Laboratories has learned how to make advantageous use of a luminescent semiconductor material (gallium phosphide) that works on tiny currents, requires no power except what comes over the telephone line, and will last indefinitely. One possible use is suggested in the picture, where the word “confirmed” appears on the telephone instrument—as it might, for instance, if a computer were to signal back confirmation of a bank deposit made by pressing Touch-Tone® pushbuttons. A more immediate use will likely be in telephone pushbuttons themselves; or numerals might light as buttons are pressed, giving assurance that the right number is being called; or a deaf person could see a message sent by Touch-Tone.





The great network does not stop at our shorelines. Under the oceans and over reaches of space it connects with countries and people around the world. This sturdy sea plow, towed by a ship, can bury seagoing telephone cable *under* the ocean floor even where the bottom has been described as "tough as macadam pavement." Bell Laboratories designed the plow for use in areas where fishermen's trawling gear can

otherwise cause cable damage. To provide the best and most reliable international connections to the nationwide network, the Bell System pioneered development of ocean telephone cables, demonstrated the practicability of communications satellites through its Telstar experiments in 1962, and now uses both cable and satellite channels for increasingly abundant, high-quality service.

YOUR
ANYWHERE ANYTHING
AT ANY TIME
NETWORK

FINANCIAL STATEMENTS

THE BELL SYSTEM CONSOLIDATED FINANCIAL STATEMENTS on the following pages consolidate the accounts of American Telephone and Telegraph Company and its telephone subsidiaries (see page 16). These companies maintain their accounts in accordance with the Uniform System of Accounts prescribed for telephone companies by the Federal Communications Commission.

For the companies consolidated, all significant intercompany items are excluded from these statements. Investment in subsidiaries not consolidated as stated in the Balance Sheets includes the interest in the net assets of such subsidiaries, and the interest in their earnings is included in the Income Statements.

Most of the telephone equipment, apparatus and materials used by the companies consolidated has been manufactured or procured for them by Western Electric Company, Incorporated, the principal subsidiary not consolidated. Contracts with the telephone companies provide that Western's prices to them shall be as low as to its most favored customers for like materials and services under comparable conditions. Items purchased from Western by the telephone companies are entered in their accounts at cost to them, which includes the return realized by Western on its investment devoted to this business.

A. L. STOTT
Vice President and Comptroller

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

TO THE SHARE OWNERS OF AMERICAN TELEPHONE AND TELEGRAPH COMPANY:

We have examined the consolidated balance sheet of American Telephone and Telegraph Company and its telephone subsidiaries as of December 31, 1968 and the related income statement and statement of retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and included such tests of the accounting records of each of the companies consolidated and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated statements of the Company and its telephone subsidiaries for the year 1967. We did not examine the consolidated financial statements of the Company's principal nonconsolidated subsidiary, Western Electric Company, Incorporated and Subsidiaries, which statements were examined by other independent accountants whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for Western Electric Company, Incorporated and Subsidiaries, is based upon such report.

In our opinion, the consolidated financial statements on pages 26 to 29 and related notes on page 32 present fairly the consolidated financial position at December 31, 1968 and 1967 and the consolidated results of operations for the years then ended of American Telephone and Telegraph Company and its telephone subsidiaries, in conformity with generally accepted accounting principles applied on a consistent basis.

BELL SYSTEM INCOME STATEMENTS

AMERICAN TELEPHONE AND

	THOUSANDS OF DOLLARS	
	Year 1968	Year 1967
OPERATING REVENUES		
Local service	\$ 7,184,077	\$ 6,737,734
Toll service	6,341,158	5,737,866
Miscellaneous	648,759	608,968
<i>Principally from directory advertising</i>		
Less: Provision for uncollectibles	73,980	75,364
Total operating revenues	<u>14,100,014</u>	<u>13,009,204</u>
OPERATING EXPENSES		
Maintenance	2,470,708	2,284,614
Depreciation	2,138,141	1,949,314
<i>Portion of the cost, computed on the straight line method, of depreciable plant charged against current operations, approximately 5.3% in 1968 and 5.2% in 1967</i>		
Traffic	1,239,829	1,146,329
<i>Costs, principally operators' wages, incurred in the handling of messages</i>		
Commercial	447,548	420,252
<i>Primarily costs of local business office operations</i>		
Marketing	619,651	586,629
Accounting	451,525	418,166
Research and fundamental development (a)	94,692	87,127
Provision for pensions and other employee benefits (b)	620,583	597,738
Other operating expenses	548,671	499,225
Less: Expenses charged construction	189,122	172,980
Total operating expenses	<u>8,442,226</u>	<u>7,816,414</u>
Net operating revenues	<u>5,657,788</u>	<u>5,192,790</u>
OPERATING TAXES		
Federal income	1,951,662	1,663,288
State, local and social security	1,348,348	1,212,647
Total operating taxes	<u>3,300,010</u>	<u>2,875,935</u>
Operating income (carried forward)	<u>\$ 2,357,778</u>	<u>\$ 2,316,855</u>

For notes, see page 32

TELEGRAPH COMPANY AND ITS TELEPHONE SUBSIDIARIES CONSOLIDATED

	THOUSANDS OF DOLLARS	
	Year 1968	Year 1967
Operating income (<i>brought forward</i>)	\$ 2,357,778	\$2,316,855
OTHER INCOME (c)	<u>314,531</u>	<u>274,836</u>
Income before interest deductions	2,672,309	2,591,691
 INTEREST DEDUCTIONS	 560,405	 481,421
<i>Principally on long-term debt</i>	<u> </u>	<u> </u>
 NET INCOME BEFORE MINORITY INTERESTS	 2,111,904	 2,110,270
Minority interests	<u>60,139</u>	<u>60,865</u>
NET INCOME APPLICABLE TO AT&T CO. SHARES	<u>\$ 2,051,765</u>	<u>\$2,049,405</u>
 EARNINGS PER SHARE	 \$3.75	 \$3.79
<i>Based on average AT&T Co. shares outstanding, 546,688,000 in 1968 and 540,312,000 in 1967</i>		

STATEMENTS OF CONSOLIDATED RETAINED EARNINGS APPLICABLE TO
AMERICAN TELEPHONE AND TELEGRAPH COMPANY SHARES

	THOUSANDS OF DOLLARS	
	Year 1968	Year 1967
BALANCE AT BEGINNING OF YEAR	\$ 7,454,502	\$6,602,739
 ADDITIONS:		
Net income applicable to AT&T Co. shares	2,051,765	2,049,405
Miscellaneous—net	45,148	18,099
 DEDUCTIONS:		
Dividends on AT&T Co. shares	<u>1,312,051</u>	<u>1,215,741</u>
 BALANCE AT END OF YEAR	 <u>\$ 8,239,364</u>	 <u>\$7,454,502</u>

BELL SYSTEM BALANCE SHEETS

AMERICAN TELEPHONE AND

ASSETS	THOUSANDS OF DOLLARS	
	December 31, 1968	December 31, 1967
TELEPHONE PLANT AND OTHER INVESTMENTS		
Telephone Plant—at cost		
Land, buildings and equipment		
In service	\$43,429,356	\$40,152,549
Under construction	1,511,209	1,286,852
Held for future use	<u>34,426</u>	<u>36,270</u>
	44,974,991	41,475,671
Less: Accumulated depreciation	<u>10,220,088</u>	<u>9,179,490</u>
	34,754,903	32,296,181
Other Investments		
Investment in subsidiaries not consolidated (d)	2,021,767	1,787,531
Other (e)	<u>228,671</u>	<u>193,763</u>
	<u>37,005,341</u>	<u>34,277,475</u>
CURRENT ASSETS		
Cash and temporary cash investments	789,822	1,236,893
Receivables—less allowance for uncollectibles (f)	1,810,243	1,619,994
Material and supplies	<u>170,720</u>	<u>144,375</u>
	<u>2,770,785</u>	<u>3,001,262</u>
PREPAID EXPENSES AND DEFERRED CHARGES	<u>374,591</u>	<u>329,164</u>
Total Assets	<u><u>\$40,150,717</u></u>	<u><u>\$37,607,901</u></u>

For notes, see page 32

LIABILITIES	THOUSANDS OF DOLLARS	
	December 31, 1968	December 31, 1967
EQUITY		
American Telephone and Telegraph Company		
Shares (common)—par value (\$16 $\frac{2}{3}$ per share)	\$ 9,154,398	\$ 9,019,804
<i>Authorized 600,000,000 shares;</i>		
<i>outstanding at December 31, 1968, 549,264,000 shares</i>		
Share installments (g)	—	292,054
Premium on shares—see note (g)	5,288,919	5,081,059
Retained earnings—see page 27	8,239,364	7,454,502
	<u>22,682,681</u>	<u>21,847,419</u>
Minority interests	745,772	736,191
	<u>23,428,453</u>	<u>22,583,610</u>
DEBT		
Long-term (h)	12,834,000	11,677,000
Notes payable	595,930	224,000
	<u>13,429,930</u>	<u>11,901,000</u>
CURRENT LIABILITIES		
Accounts payable	1,132,044	1,017,919
Advance billing and customers' deposits	358,295	324,676
Dividends payable	335,559	330,656
Taxes accrued	754,979	852,051
Interest accrued	176,168	149,955
	<u>2,757,045</u>	<u>2,675,257</u>
DEFERRED CREDITS		
Unamortized investment credit	480,634	398,509
Other	54,655	49,525
	<u>535,289</u>	<u>448,034</u>
Total Liabilities	<u><u>\$40,150,717</u></u>	<u><u>\$37,607,901</u></u>

TEN YEARS IN REVIEW

AMERICAN TELEPHONE AND

000 OMITTED FROM DOLLAR AMOUNTS EXCEPT AMOUNTS PER SHARE

	1968	1967	1966
INCOME AND EARNINGS			
<i>Years ended Dec. 31</i>			
Operating revenues	\$14,100,014	\$13,009,204	\$12,138,265
Operating expenses	8,442,226	7,816,414	7,260,861
Operating taxes	3,300,010	2,875,935	2,718,493
Operating income	2,357,778	2,316,855	2,158,911
Other income*	314,531	274,836	281,165
Income before interest deductions	2,672,309	2,591,691	2,440,076
Interest deductions	560,405	481,421	402,818
Net income before minority interests	2,111,904	2,110,270	2,037,258
Net income applicable to AT&T Co. shares	2,051,765	2,049,405	1,978,943
Earnings per share†	\$3.75	\$3.79	\$3.69
Dividends paid per share†	\$2.40	\$2.20	\$2.20
Return on average equity	9.26%	9.73%	9.86%
Return on average total capital	7.50%	7.77%	7.91%
OWNERSHIP AND CAPITAL			
<i>End of year except as noted</i>			
AT&T share owners	3,142,075	3,110,074	3,089,648
Shares outstanding—average number†	546,688,000	540,312,000	536,107,000
Equity per share†	\$41.30	\$39.83	\$38.23
Total capital	\$36,858,383	\$34,484,610	\$32,016,537
Proportion of debt in total capital	36.44%	35.36%	33.35%
TELEPHONE PLANT, SERVICE, EMPLOYEES			
Construction expenditures	\$ 4,742,144	\$ 4,309,620	\$ 4,192,564
Total plant at end of year	44,974,991	41,475,671	38,354,182
Telephones in service—end of year	88,007,000	83,762,000	79,903,000
Average conversations per day	322,664,000	306,873,000	295,187,000
Overseas conversations per year	15,200,000	12,332,000	9,932,000
Employees at end of year**	872,018	841,241	833,559
Wages and pension and benefit costs**	\$ 7,651,325	\$ 7,124,688	\$ 6,724,941

*includes earnings of Western Electric Company **including Western Electric and Bell Telephone Laboratorie

TELEGRAPH COMPANY AND ITS TELEPHONE SUBSIDIARIES CONSOLIDATED

1965	1964	1963	1962	1961	1960	1959
\$11,061,783	\$10,305,993	\$ 9,568,961	\$ 8,980,208	\$ 8,414,426	\$ 7,920,454	\$ 7,392,997
6,670,547	6,125,738	5,611,856	5,305,037	5,012,790	4,754,289	4,479,495
2,440,033	2,382,809	2,302,006	2,150,100	1,971,687	1,847,702	1,690,289
1,951,203	1,797,446	1,655,099	1,525,071	1,429,949	1,318,463	1,223,213
261,217	260,955	207,578	214,831	178,434	189,763	147,197
2,212,420	2,058,401	1,862,677	1,739,902	1,608,383	1,508,226	1,370,410
362,235	347,778	335,319	306,950	282,796	257,271	221,641
1,850,185	1,710,623	1,527,358	1,432,952	1,325,587	1,250,955	1,148,769
1,796,094	1,658,606	1,479,517	1,388,175	1,284,586	1,212,966	1,113,152
\$3.41	\$3.24	\$3.03	\$2.90	\$2.76	\$2.77	\$2.61
\$2.00	\$1.95	\$1.80	\$1.80	\$1.72½	\$1.65	\$1.57½
9.53%	9.51%	9.49%	9.47%	9.46%	10.00%	9.77%
7.65%	7.56%	7.45%	7.45%	7.41%	7.69%	7.55%
2,840,500	2,674,141	2,251,065	2,210,671	2,049,213	1,911,484	1,736,681
526,635,000	512,047,000	488,203,000	479,173,000	465,255,000	438,467,000	426,806,000
\$36.57	\$34.96	\$32.63	\$31.27	\$29.86	\$28.16	\$27.16
\$29,759,928	\$28,036,428	\$25,600,714	\$24,303,616	\$22,318,062	\$20,454,986	\$18,892,016
32.72%	32.73%	35.33%	35.35%	34.64%	36.40%	36.26%
\$ 3,917,644	\$ 3,518,896	\$ 3,135,854	\$ 2,975,980	\$ 2,696,026	\$ 2,658,381	\$ 2,249,143
35,334,071	32,543,833	30,064,269	27,913,746	25,892,817	24,072,499	22,205,475
75,866,000	72,044,000	68,640,000	65,987,000	63,178,000	60,735,000	57,944,000
279,686,000	262,082,000	251,026,000	242,383,000	226,422,000	219,093,000	208,042,000
8,108,000	6,382,000	5,290,000	4,914,000	4,365,000	3,713,000	3,089,000
795,294	761,611	733,138	728,978	725,760	735,766	729,035
\$ 6,188,070	\$ 5,715,504	\$ 5,246,160	\$ 5,068,175	\$ 4,798,698	\$ 4,624,178	\$ 4,323,821

on basis of \$16½ par value shares

NOTES TO BELL SYSTEM FINANCIAL STATEMENTS

(a) Principally cost of work carried on for American Telephone and Telegraph Company by Bell Telephone Laboratories. In addition, Western Electric Company incurs costs for development work.

(b) The Company and its subsidiaries have non-contributory plans covering all employees that provide for service pensions and death benefits. These companies have accrual programs under which actuarially determined regular payments are made to trust funds that are irrevocably devoted to service pension and death benefit purposes. The total provision for these service pensions and death benefits was \$433,184,000 in 1968 and \$429,652,000 in 1967.

(c) Includes earnings of Western Electric Company and its subsidiaries in the amounts of \$192,120,000 in 1968 and \$152,996,000 in 1967. Also includes \$75,659,000 in 1968 and \$56,038,000 in 1967 for interest charged construction.

(d) Interest in the net assets of subsidiaries not consolidated. The total investment in Western Electric Company, the principal subsidiary not consolidated, was \$1,882,223,000 at December 31, 1968 and \$1,656,384,000 at December 31, 1967.

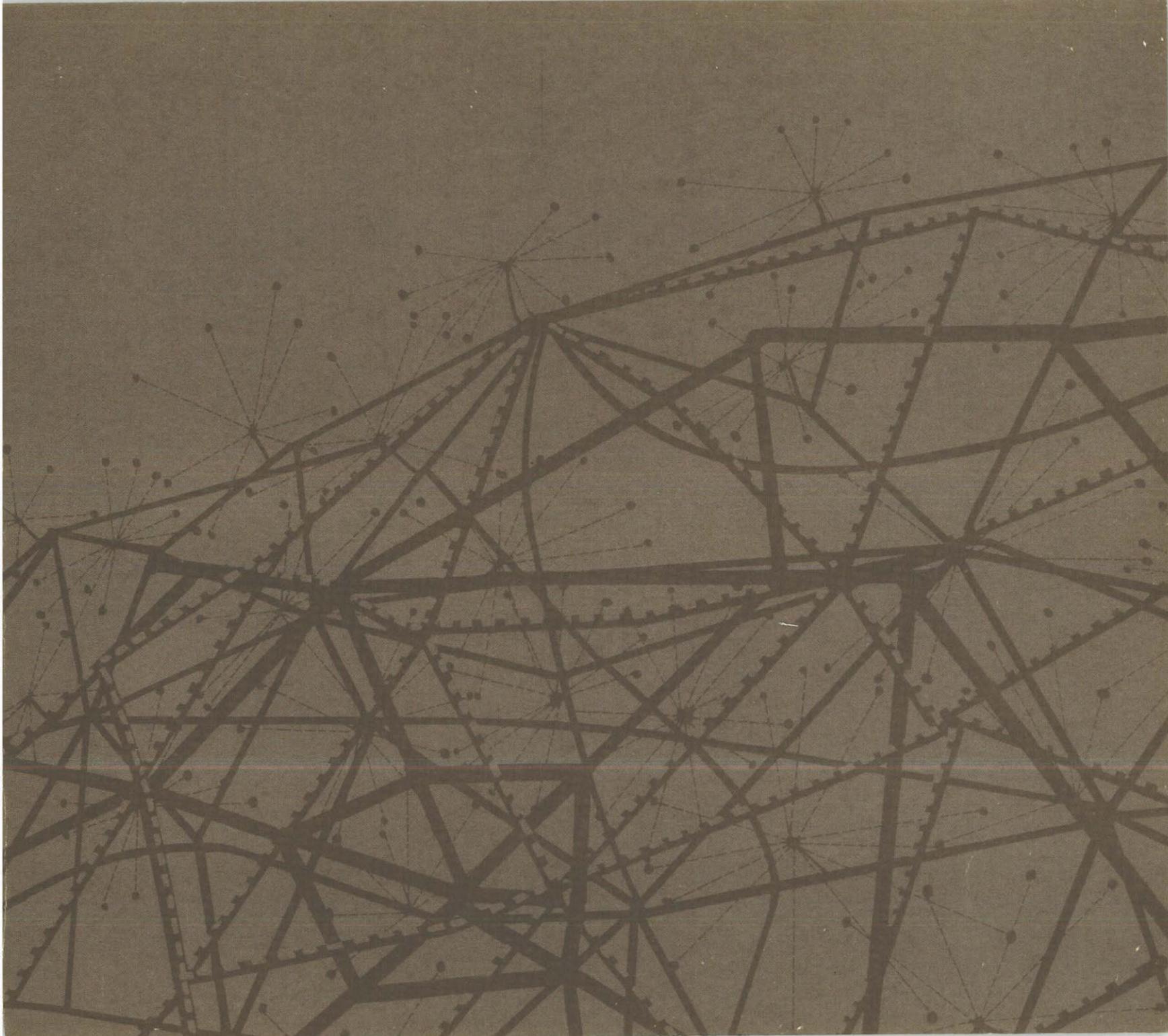
(e) At December 31, 1968 includes investments at cost in three other associated telephone companies (see page 16), \$144,262,000 and in Communications Satellite Corporation, \$57,915,000.

(f) Allowance for uncollectibles amounted to \$17,482,000 at December 31, 1968 and \$17,837,000 at December 31, 1967.

(g) The Employees' Stock Plan, approved by shareholders in 1958, terminated June 30, 1968. A total of 71,288,000 shares were issued of the 72,000,000 authorized. When shares were issued, the excess of the purchase price over the par value of the shares was credited to Premium on shares.

(h) At December 31, 1968 comprises \$140,000,000 maturing in 1970, \$1,335,000,000 from 1971 to 1980 and \$11,359,000,000 thereafter.

For financial statements, see pages 26 to 29





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